



# 2002 - Interim Report of Operations

September 2002

## Strategy for Future Growth and Development

We believe that 2002 and beyond will further contribute to the realisation of the Group's strategic and business targets. The main focus in the period will be to strengthen and build the size and profitability of the Bank and the Group commensurate with a steady improvement in the quality and efficiency of our operations. In this way we aim to satisfy all our stakeholders - customers, shareholders and employees.

Our key strategic objectives for the period 2002 - 2006 are as follows:

**Grow the balance sheet domestically and internationally.** Our aim is to grow the Group's volume of operations, to reach 20 billion euros by 2006, with profitability continuing to exceed the average for the Slovenian banking sector.

**Expand in foreign markets.** As a consequence of growing internationally, we expect 40 per cent of the Group's balance sheet to be outside Slovenia, serving a market of more than 20 million people throughout Central and Southeast Europe.

**Further development of fee business banking services.** Given the narrowing of interest rate margins, the target of the Group is to increase the proportion of its total non-interest related earnings to reach 40 per cent.

**Improvement in NLB's internal efficiency and NLB's value maximization.** Further investment in Information management technologies, new services, that will create better flexibility of transactions and increase automation and e-banking franchises, each at lower costs, resulting in **an increase in earnings per share ratios.**

**Increase levels of customer satisfaction.** We will continue to analyse our performance and introduce initiatives to raise levels of service aimed at increasing customer satisfaction and loyalty.

**Private banking and bancassurance.** Expand our offering focused on serving the needs of high net worth individuals and to offer clients **bancassurance** services in cooperation with KBC.

**Continue to invest in our people.** Education and development of all of the Group's staff and management is an on-going process of high priority that will be continued.

## NLB Group in Slovenia

### Banking Subsidiaries:

Group Banka Domžale d.d. Domžale  
Banka Zasavje d.d., Trbovlje  
Koroška banka d.d., Slovenj Gradec

### Associated Bank:

Banka Celje d.d., Celje

### Subsidiary Companies:

Feniks d.o.o., Murska Sobota (leasing company)  
Fit Leasing d.o.o., Velenje (leasing company)  
LB Factors d.d., Ljubljana (factoring company)  
Group LB Hipo d.o.o., Ljubljana (real estate company)  
Group LB Leasing d.o.o., Ljubljana (leasing company)  
LB Maksima d.o.o., Ljubljana (investment funds managing)  
Prospera Plus d.o.o., Ljubljana (tourist and catering trade)  
Real d.o.o., Novo mesto (real estate company)

### Associated Companies:

Bankart d.o.o., Ljubljana (card processing company)  
Skupna pokojninska družba d.d., Ljubljana (pension fund)

## NLB Group Abroad

### Banking Subsidiaries:

Group LBS Bank, New York  
Group LHB Internationale Handelsbank AG, Frankfurt / Main  
Tutunska banka a.d., Skopje  
Commercebank d.d., Sarajevo

### Associated Bank:

Adria Bank AG, Vienna

### Subsidiary Companies:

Group LB InterFinanz AG, Zurich (finance)  
LB Factoring CZ, a.s., Ostrava (factoring)

NLB operates internationally through a network of **representative offices** located in major financial centres including **New York, London, Frankfurt, Milan** and in the capital cities of countries which are important trading partners of Slovenia - **Moscow, Prague** and **Budapest**. In 2001 representative offices were opened in **Warsaw** and **Belgrade** and closed in Paris and Skopje. LBS Bank in New York, established in 1986, is to be sold to KBC Bank in the near future.

## Profile

Nova Ljubljanska banka Group (the Group) is the largest banking and financial services organisation in Slovenia. Together with its subsidiaries and associated bank its market share reached 44% of the total assets of the Slovenian banking sector.

Recent integration of three affiliated banks has enabled both the Group and Nova Ljubljanska banka d.d. (the Bank) to further strengthen core competitive advantages in the domestic market that now consists of 21 banks. The Bank and the Group are also well positioned for growth in the wider region.

In September 2002 NLB successfully concluded the first phase of privatisation with a 34 percent stake being purchased by the Belgian banking and insurance group KBC and 5 percent by the European Bank for Reconstruction and Development (EBRD). A further 9 percent of NLB shares are to be offered to institutional investors during the second phase of privatisation now in process.

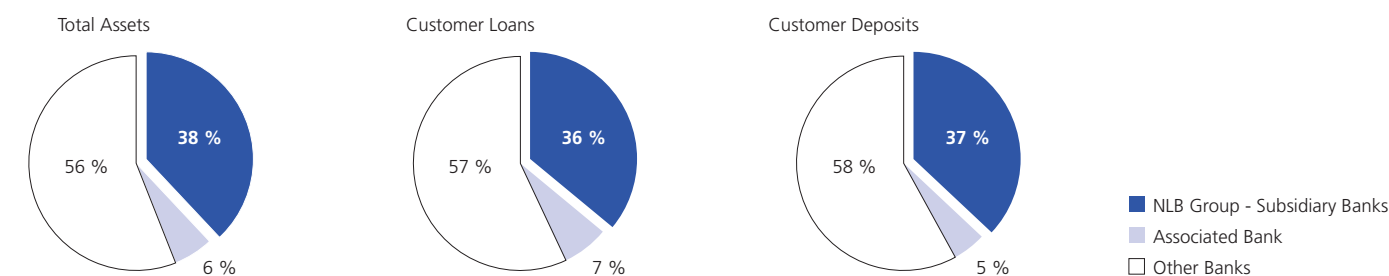
As of July 15, 2002 a new Management Board was appointed consisting of five members and led by Mr. Marko Voljč, the Bank's President since 1992.

NLB is among the best rated banks in Central and Eastern European region. The current credit ratings assigned to NLB and Slovenia by the leading international rating agencies are as follows:

Agency	NLB	Slovenia
Standard & Poor's	<b>BBB-</b>	A
Moody's	<b>Baa2</b>	A2
FITCH	<b>A-</b>	A
Capital Intelligence	<b>A-</b>	A-

(↑) Improved  
(C) Confirmed

## The Group Market Shares in Slovenian Banking Sector, 30 June 2002



## General Overview

The Group and the Bank continue to achieve solid financial results in the first half of 2002 despite increased competition and moderately less favourable economic conditions. The key features in the financial performance include strong growth in non-interest income and lower growth in net interest income.

The Group recorded **a solid 20% growth in pre-tax profit of SIT 12 billion** for the six months ended June 2002. This reflects strong growth in non-interest income and a lower growth rate in net interest income. The banks within the Group are experiencing **declining interest rate margins**, a relatively new trend in Slovenia that has been present in world markets for some time. The reduction of interest rates has been the contributing factor to the decline in margins. However, the impact was somewhat offset by an increase in the volume of operations, and strong growth in non-interest income.

Despite a more proactive approach in developing **credit activity**, in particular the corporate sector, growth was limited to 4% due to less favourable macroeconomic conditions mainly due to weaker domestic activity. **The good growth in non-interest income** comes from growth in fees and commissions as well a strong performance in investment banking activities in view of the buoyant Slovenian capital market. In order to further improve cost management, internal initiatives are underway to maximise efficiencies.

Whilst the Bank was the key driving force behind the Group's asset growth of 3 percent in the first half of 2002, nearly all subsidiaries and associated banks and companies contributed to the positive result of the Group. The **outlook** for the second half of 2002 is likely to see further pressures on the net interest margin as interest rates continue to decline.

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## NLB Group Financial Review in the Period January - June 2002

Table 1: The Group Financial Highlights under International Accounting Standards

(in billions of Tolars)	30.6.2002	31.12.2001	31.12.2000	31.12.1999
<b>Profit and Loss Account</b>				
Net interest income	29.8	52.9	46.3	36.1
Net non-interest income	18.5	30.9	21.0	18.5
Profit before tax	12.0	23.6	18.4	16.6
Profit after tax	7.0	14.8	11.8	10.9
Minority interest	0.5	1.4	2.0	2.2
Net profit	6.5	13.5	9.8	8.8
<b>Balance Sheet</b>				
Total assets	1,779.5	1,722.3	1,146.4	969.9
Loans to non-banking customers	857.6	818.4	597.5	483.8
Investments & securities	636.6	563.5	357.6	318.2
Deposits from non-banking customers	1,160.8	1,110.1	740.8	626.4
Total shareholder's equity	114.0	109.7	78.5	65.8
<b>Performance Figures (%)</b>				
Capital adequacy ratio (BIS)	12.6	12.8	13.5	15.2
Return on average equity (before Tax)	17.3	20.1	20.4	21.6
Return on average total Assets (before Tax)	1.4	1.6	1.7	1.8
<b>Tolar Exchange Rate</b>				
for 1 USD	226.9	250.9	227.4	196.8
for 1 EURO	226.0	221.4	211.5	197.3

The Group's profit before tax amounted to SIT 12.0 billion in the first half of 2002, increased by **20 percent** compared to the same period last year.

Net interest income in the amount of SIT 29.8 billion grew by **23.5 percent** compared to the same period in 2001.

Net non-interest income amounted to SIT 18.5 billion and recorded a growth rate of **51.6 percent** compared to the same period last year.

Operating costs in the amount of SIT 30.9 billion grew by **44.5 percent** compared to the same period in 2001 (**18.3 percent** on comparable basis).

Total assets on 30 June amounted to **SIT 1,779.5 billion**, recording a 3.3 percent growth since the end of 2001.

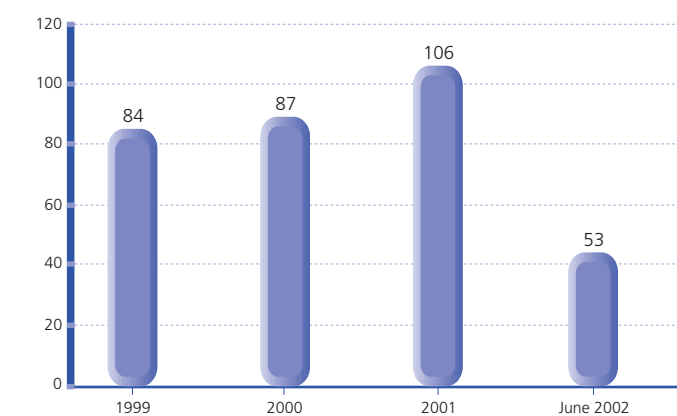
Loans to non-banking sector grew by **4.8 percent** to SIT 857.6 billion.

Deposits from non-banking sector, amounted to SIT 1,160.8 billion at the end of June, increased by **9.3 percent** since the end of 2001.

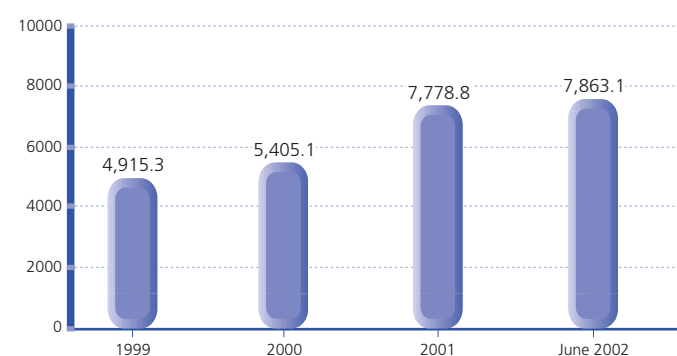
Capital adequacy ratio (BIS) stood at **12.6 percent** on 30 June 2002.

At the Bank's Annual General Meeting held in June 2002 a **dividend payout** totalling 3.29 billion Tolars or 428.52 Tolars per share was declared, an increase of **44.6 percent** over year 2001.

Profit before Tax in million Euros



Total Assets in million Euros



## NLB d.d. Financial Review in the Period January - August 2002

Table 2: NLB d.d. Financial Highlights under International Accounting Standards

(in billions of Tolars)	31.8.2002	30.6.2002	31.12.2001	31.12.2000	31.12.1999
<b>Profit and Loss Account</b>					
Net interest income	28.3	21.2	34.8	32.2	24.2
Net non-interest income	18.9	14.5	23.3	13.1	17.5
Profit before tax	11.8	10.0	14.4	11.3	9.1
Profit after tax	7.1	6.4	8.4	6.3	4.8
<b>Balance Sheet</b>					
Total assets	1,428.3	1,405.8	1,355.7	893.5	731.6
Loans to non-banking customers	683.3	661.7	636.8	443.0	353.8
Investments & securities	522.8	517.6	440.2	264.5	159.3
Deposits from non-banking customers	1,028.8	1,016.1	962.1	557.2	459.3
Total shareholder's equity	99.2	98.2	95.3	62.5	54.4
<b>Performance Ratios (%)</b>					
Capital adequacy ratio (BIS)	11.9	10.3	10.5	12.0	12.6
Return on avg. equity (before Tax)	24.0	20.8	18.1	19.3	17.8
Return on avg. total assets (before Tax)	1.7	1.5	1.3	1.4	1.3

Profit before tax reached SIT 11.8 billion in the period from January to August 2002, therefore recorded a good growth compared to the same period last year.

Total assets of SIT 1,428.3 billion on 31 August 2002 represent an increase by 5.4 percent over year-end 2001.

Loans to non-banking sector stand at SIT 683.3 billion in August 2002 - a 7.3 percent increase compared to 2002 year-end. An increase in loans in the first eight months of the year 2002 amounted to SIT 46.5 billion, of which SIT 21.6 billion grew in July and August of 2002.

Deposits from non-banking sector reached SIT 1,028.8 billion, an increase by 6.9 percent over year-end 2001.

Capital adequacy ratio according to BIS standards improved to 11.9 percent mainly due to the subordinated loan, approved to the Bank in the amount of SIT 20.4 billion (€ 90 mio) in July 2002.

### Privatisation of NLB

With the start of privatisation process in 2001 and its conclusion in early September 2002, we have witnessed considerable change within our organisation as we move into more balanced ownership structure, further improving our corporate governance and providing base for future growth.

After a long period of preparation and search for an optimal privatisation program the implementation started in May of 2001 with the approval of the program. In September 2001 a majority shareholder, the Republic of Slovenia, by international tender, invited **key investors** to buy its 34 percent of shares of Nova Ljubljanska banka d.d., Ljubljana. On **May 8, 2002 a leading Belgian banking - insurance Group KBC signed a contract to purchase a 34 percent stake in NLB**. As of September 6, KBC has four out of eleven representatives in the Bank's newly appointed supervisory board and one representative in the Bank's newly appointed management board.

A **5 percent stake** was acquired by **European Bank for Reconstruction and Development (EBRD)**. This transaction represents one of the largest EBRD investments in privatisation process in Central and Eastern Europe. EBRD has one representative in the Bank's newly appointed supervisory board.

In the second phase of privatisation, commencing in September 2002 a **9 percent share** will be offered to **institutional investors**.

NLB d.d. Profit before tax and return on average capital

